UNCTAD BULLETIN

JULY-AUGUST/SEPTEMBER-OCTOBER 1995 NUMBER 33

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UNITED NATIONS CONFERENCE
ON TRADE AND DEVELOPMENT

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GUEST EDITORIAL

Shahen Abrahamian died in August 1995. Together with a team of macro-economists in the Global Interdependence Division of UNCTAD, he had conceptualized and guided research and analysis for the Trade and Development Report. These annual reports have, over time, addressed, in a systematic manner the varied aspects of North-South interdependence and contributed to a development-oriented debate on appropriate policy responses. In the article reproduced below, Jonathan Power, a well-known columnist specialized in international affairs, interviewed Shahen Abrahamian shortly before his demise. Power's article encapsulates the discussion in the *Trade and Development Report* and the thinking that went behind it.

WHAT NEXT FOR "ROOTLESS, CHANGEABLE" ECONOMISTS?*

A neo-Keynesian attack on unemployment

By Jonathan Power

Inside an unsung organization was an unsung hero. Shahen Abrahamian, chief economist of the sadly ignored United Nations Conference on Trade and Development, died last month at the age of 49. But this Cambridge-educated Iranian left the game plan for a resurgence of Keynesian thinking in international economics.

He would have liked what John Kenneth Galbraith wrote in the current issue of *World Policy Journal*:

"Economists are a rootless, changeable bunch. We have a striking predilection for constructing systems of belief, preaching them for a few years, then abandoning them, often for good reasons that we should have recognized years before." Thus, after the (highly successful) Keynesianism of the 1960s, came the domestic supply side economics of the 1980s, to be followed by the global supply-side nostrums of the Clinton administration. "Crisis of both theory and performance has swamped each in turn. We are left to wonder what comes next. A force of global Keynesianism perhaps?" asks Mr. Galbraith.

Third World's double curse

No one has worked harder to put flesh on the notion of global Keynesianism than Shahen Abrahamian.

His latest and last contribution, just published by UNCTAD, is a cry for policies of full employment, not just in the Third World, from which he hailed, but first and foremost in the industrialized world - because, he argued, until that problem is solved the Third World will go on getting the blame for northern unemployment as well as having to deal with its own miseries.

"There can be no doubt that unskilled northern labour," he wrote, " has been displaced on a significant scale in a number of industries, including footwear and clothing, by developing countries. Nonetheless, the growth of North-South trade does not provide a convincing explanation of the unemployment problem as a whole."

To prove this, Mr. Abrahamian cites the fact that differences among industrialized countries are unrelated to differences in their trade balances with developing countries. Between 1970 and 1993, Canada, which suffered the second largest decline in its trade balance with the developing countries, had the largest increase in total manufacturing employment. But Italy, which had the smallest decline in its Third World trade balance, lost a fifth of its manufacturing jobs.

He further refutes those who blame unemployment on new technologies, and then he seeks to provide a national answer to "why it has been so difficult for labour... to be deployed at remunerative wages as in the Golden Age of the 1950s and '60s." Is it man-made rigidities - an over-regulated labour market and the welfare state? This is the current fashion, but Mr. Abrahamian shows that if all enterprises were given the chance to operate more flexibly, none might choose to expand output "unless the level of aggregate demand also rose."

Like all Keynesian theory, it is obvious once said, and yet so elusive in the torrent of supply-side propaganda. Thus we are surrounded by a massive sea of the unemployed, while firms continue to downsize rather than enlarging productive capacity.

Loosen the strings

Mr. Abrahamian would do away with restrictive monetary policy, which pushes up interest rates and

(continued on page 8)

* This article appeared in the 26 September 1995 issue of the *Baltimore Sun*.

RUBENS RICUPERO ASSUMES LEADERSHIP OF UNCTAD

The nomination of Mr. Rubens Ricupero (Brazil) as Secretary-General of UNCTAD for a four-year term beginning on 15 September 1995 was unanimously confirmed by the United Nations General Assembly.

Mr. Ricupero was successively Minister of Environment and Amazonian Affairs and Minister of Finance of Brazil. He served as Ambassador to the United States and Permanent Representative of Brazil to the United Nations in Geneva. Mr. Ricupero has extensive experience in the work of the Bretton Woods institutions, of UNCTAD and of GATT, where he chaired the GATT Contracting Parties and the GATT Council of Representatives. He headed the Brazilian delegation to the United Nations Human Rights Commission and the Conference on Disarmament in 1990-1991. He was also the Chairman of the Finances Committee at the 1992 United Nations Conference on Environment and Development, and of the Workshop on Trade and Environment, jointly sponsored by the United Nations Environment Programme and UNCTAD in Geneva in 1994. He was the Governor for Brazil at the Common Fund for Commodities in 1990, and at the International Monetary Fund in 1994. He has been associated with the Inter-American Development Bank, the World Bank and the African Development Bank. His academic assignments included serving as professor of theory of international relations at the University of Brasilia from 1979 to 1995, professor of history of Brazilian diplomatic relations at the Rio Branco Institute, Brazil, from 1980 to 1995, and honorary professor at Peru's Diplomatic Academy. Mr. Ricupero also served as a professor of international relations in courses organized by the United Nations Institute for Training and Research (UNITAR) in Suriname and Gabon, and was Chairman of the Fernand Braudel Institute of World Economy, Brazil, from 1988 to 1994. He is a member of several international and academic organizations, and has written essays and articles on international relations, problems of economic development, international trade and diplomatic history.

Mr. Ricupero received a Bachelor of Laws degree from the University of Sao Paulo, Brazil, in 1959 and attended a course at Brazil's diplomatic academy, the Rio Branco Institute, in 1960. Born on 1 March 1937, in Sao Paulo, Brazil, he is married and has four children.

HOW RUBENS RICUPERO SEES THE TASK OF THE UNCTAD SECRETARIAT

- Excerpts from his first address to the staff -

Mr. Ricupero addressed the staff members of UNCTAD on 17 October and exchanged views on the future work of UNCTAD. The text of his speech is reproduced below.

"Dear Colleagues, Ladies and Gentlemen,

I am happy to be back in Geneva. I have been here before as the representative of my country. I am privileged and proud to return as the head of the UNCTAD secretariat.

The leadership of UNCTAD is a daunting challenge. The struggle for justice and equity in international economic relations, which is our vocation, is an uphill struggle, calling for commitment and perseverance from all of us. In confronting this challenge, I shall be inspired by the example of the four prominent advocates of development who have preceded me in this office. Their visions of a better world and their efforts to change the world around them are the foundation on which we must build. I should also like to pay a special tribute to Mr. Carlos Fortin, who assumed the leadership of UNCTAD at a critical period of its evolution, particularly in the context of the preparatory process of UNCTAD IX.

The reputation of any institution derives not so much from its leadership as from the competence and dedication shown by its staff. No one coming to UNCTAD can fail to be impressed by the substantial and innovative contributions made by the staff to the development of international economic cooperation. If I have taken on the challenge of UNCTAD, it is because I am convinced that the potential present in the UNCTAD secretariat is significant. I appeal to you to do your utmost to realize this potential, thereby both satisfying your professional aspirations and strengthening the effectiveness of the institution in pursuit of its aims, as determined by Member States.

At this first meeting I will not go further than to share with you some general thoughts about the nature, content and methods of our common task.

The first theme that I wish to stress is that of our dedication to the letter and spirit of the Charter of the United Nations. This dedication, which is incumbent upon us as members of the United Nations secretariat, has several implications for our work. In the first place, it commits us to be agents of reform and change. The Charter is an instrument of peace and progress. To help Member States achieve these aims, it is not enough for the secretariat to observe and analyse. It must also promote action by proposing solutions to problems of concern to the membership. May I add at this juncture that my only motive for taking up the function of Secretary-General is to try to help UNCTAD to be relevant, to be helpful to countries and serve the international community with utmost integrity in the areas of trade and development. I have a total commitment to the causes of UNCTAD.

The second theme which I wish to sound concerns UNCTAD's particular mission as a development institution. Our mission may be summed up as being to assist Member States in the transformation of international economic systems so as to make these systems more supportive of national development processes. While other institutions also operate on the international economic environment, our particularity lies in our ability to bring a universal viewpoint to bear on, among other things, the interrelated issues of trade, money and finance, and to do this in the perspective of development.

We are still grappling today with some of the complex problems of international economic relations which gave rise to the establishment of UNCTAD over 30 years ago. However, we must keep abreast of the evolution of economic realities and the changing character of these problems, and ensure that our analyses and recommendations remain relevant and useful to Member States and to people's lives and welfare, directly or through its impact on policy formulation. To achieve these goals, we should explore new techniques and technologies that could add to our capacity to undertake policy research in cooperation with NGOs, universities and research institutes, and to reach government agencies directly.

We must also act as agents of change and reform in the period ahead, particularly in the runup to UNCTAD IX. Let me assure you that, in assuming the leadership of UNCTAD, I am convinced that in the evolving international economic and institutional context our organization is well placed to contribute to lasting solutions to the current development problématique.

In order to achieve this objective, we must chart a new course in the substantive and institutional evolution of UNCTAD. The ninth session of the Conference will provide an opportunity to do so - and let us do our best to make it a success. I am convinced that it will indeed be a success if there is an intergovernmental consensus that enables us to do what we can do best.

The current criticism of UNCTAD is unfair. We have always been directed, in our policy stance, by our Member Governments. Hence, the criticism would

address the international community, not UNCTAD as a secretariat. UNCTAD will be what we, and particularly the Member States, want it to be.

UNCTAD is an institution in the service of development, and I am convinced that its potential contribution to the cause of development can be further enhanced. I am also confident that UNCTAD will re-emerge as the forum where the development perspective will be brought to bear on the fundamental questions related to the increasingly interdependent world economy.

Here I would like to touch on an issue which has invariably come up in various quarters in discussion on UNCTAD. This relates to the role of UNCTAD in the field of trade in the light of the creation of the World Trade Organization (WTO). As you are aware, the main functions of the WTO are to facilitate the implementation of the numerous Uruguay Round Agreements, to administer the system for the settlement of disputes, and to provide a forum for negotiations of further multilateral rules.

The more precise scope of the functions of the WTO will no doubt evolve as the organization becomes increasingly consolidated. In the broadest sense, however, there is need for a universal forum like UNCTAD, where international trade policy can be analysed and discussed in the context of its complex relationships with interdependent issues in the areas of finance, technology, investment, services and sustainable development. For us, international trade is one of a number of tools of development.

I shall refrain from going into further detail about the role of UNCTAD, but I can assure you that there is a clearly recognized delineation of functions between UNCTAD and the WTO, and it is for Governments to map out the responsibility of each institution in furthering the international trade agenda. Let me only remind you that there is no monopoly in the treatment of trade issues at the multilateral level. Besides WTO, for instance, the IMF, the OECD, the World Bank, the regional development banks and many other agencies have been active in trade matters. Consequently, there is ample room for the constructive contribution of UNCTAD alongside the others. The risk of duplication, about which we are hearing so much lately, remains generic and in the realm of hypothetical questions, as long as concrete cases were never identified in practice.

Let me turn to a subject to which I attach a great deal of importance, namely, UNCTAD's technical cooperation activities. As you are aware, we have been criticized for being a talk-shop, for indulging in semantic quibbling, and for promoting self-serving decisions by intergovernmental bodies. As I see it, an important channel through which we can avoid providing grounds for such criticism is to let Member States see the practical side of our work. This implies a determined effort aimed at increasing the usefulness and topicality of our technical cooperation activities. I intend to devote attention to this issue in the near future with a view to identifying innovative mechanisms for resources mobilization, as well as ways and means of capitalizing further on our institutional comparative advantages in technical cooperation.

My third and last theme for today concerns the management of the UNCTAD secretariat. As the chief executive of the UNCTAD secretariat, I am determined to exercise firm and fair leadership. Streamlining of the secretariat, as you may be aware, will be part of a system-wide effort to which the Secretary-General is personally committed. As I said earlier, reform is the order of the day, and we in UNCTAD will have to contribute to the ongoing efforts initiated by the Secretary-General and Member States. In this context, I intend to carry out structural adaptations aimed at increasing the efficiency of the secretariat, while promoting synergies between its various programmes. In doing so, a new management culture will have to be introduced, and I count on the support of all staff members, particularly programme managers.

Let me conclude by reminding you of the difficult times which UNCTAD faces. The world economic situation is not particularly propitious for development. The principle of multilateral cooperation has increasingly been under attack from powerful quarters. UNCTAD itself has been the target of particular criticism. The United Nations is undergoing its most severe budgetary crisis to date.

But this is not a time to be discouraged and defensive. We must be self-critical, self-disciplined and self-reliant. Rigorous, informed and continuing criticism by ourselves of the way we work is the only way to forestall criticism from outside. We must be disciplined both in our selection of attainable objectives and in the use of the resources available to us to achieve them - the most precious of which is our own time at work. And we must, in the end, rely for our credibility on the evidence of our own professional competence, since even our great supporters might be disillusioned if we do not produce work of consistently high quality and in the manner expected of us.

The next major objective in this mission is the preparation of UNCTAD IX. This is, of course, my top substantive and political priority, as I assume office. With the support of my senior colleagues, I am taking steps to review the options available to us in making proposals for the Conference. The needs of UNCTAD IX will also be an overriding consideration in my initial review of the organization and development of secretariat resources.

Finally, I would like to quote from Albert Schweitzer, 'We are pessimists in knowledge, but optimists in hope and action'."

UNCTAD SECRETARY-GENERAL SETS OUT HIS VIEWS TO THE PRESS

"Development is first and foremost a different name for peace. It is impossible to aspire for peace if economic and social progress are neglected. UNCTAD is therefore not only relevant but also indispensable, as it is the most important international organization dealing with development." Rubens Ricupero thus set the stage in his first address to the press, at the Palais des Nations on 17 October, upon his appointment as Secretary-General of UNCTAD.

Broaching the subject of competition among international agencies, Mr. Ricupero pointed out that the WTO and UNCTAD were two different but complementary organizations. WTO was essentially an international trade agency geared to the negotiation of trade agreements and rule-setting, and dispute settlement. UNCTAD,on the other hand,was a forum where, *inter-alia*, trends in international trade and trading opportunities are analysed, possible areas for future negotiation identified, and where consensus is built. It would thus be shortsighted to have only one organization to deal with trade issues. UNCTAD made a difference in that it approached trade issues from a development perspective and covered a broad range of interrelated issues.

UNCTAD had played a decisive role in supporting developing countries during the Uruguay Round trade negotiations and in their accession to GATT and WTO. Much remained to be done after the completion of the Uruguay Round negotiations. Tariff escalation and tariff peaks continued to affect developing country exports. Moreover, African countries would not be able to draw immediate benefits from the Agreements and new trading opportunities. In the debate on commodities - a field employing over 75 per cent of the workforce in Africa - the concerns of weaker developing economies had been largely absent from the international agenda and needed to be brought to the forefront.

He reminded the press that UNCTAD goes far beyond analytical research by assisting countries in coping with their problems in a concrete way. He referred to UNCTAD's trade efficiency initiative and the Trade Point Network, as well as to UNCTAD's technical cooperation services in other areas such as the debt management system, port management, or concrete advice on foreign direct investment.UNCTAD IX would be a major event, alerting the international community to the problems of African countries and allowing policy-makers to reflect on contradictions on the development scene.

Mr. Ricupero saw the approach to development as increasingly characterized by two tendencies: first, there was a high degree of convergence in the assessment that low rates of inflation, low budget deficits and a generally healthy financial situation were necessary but not sufficient conditions for development. While growing importance was accorded to the role of markets, the need for a strong and efficient government was increasingly recognized. The second tendency tendency was the recognition that development would not result from applying a single recipe. Development strategies needed to be tailored to the specific needs of individual countries.

UNCTAD SECRETARY-GENERAL ADDRESSES G.77 MINISTERIAL MEETING

Addressing their Ministers of Foreign Affairs in New York on 29 September, Mr. Ricupero, Secretary-General of UNCTAD, expressed his thanks to the developing countries for conveying a strong message on the role UNCTAD should continue to play in the international arena. Mr. Ricupero was confident that UNCTAD would re-emerge as the forum where the development perspective will be brought to bear on the fundamental questions related to the increasingly interdependent world economy.

The risks of duplication between UNCTAD and the WTO remained hypothetical and a clearly recognized delineation of functions existed between the two organizations. Governments had to map out the responsibility of each institution in furthering the international trade agenda. The main functions of the WTO are to facilitate the implementation of the Uruguay Round Agreements, to administer the system for the settlement of disputes, and to provide a forum for the negotiation of further multilateral rules. UNCTAD is a universal forum where international trade policy can be analysed in the context of its complex relationships with the issues of finance, technology, investment, services and sustainable development. Governments can discuss what non-trade policy areas need to be included in international trade disciplines and which are best dealt with through other instruments. UNCTAD can carry out the identification and analytical exploration of issues and policy options, as well as the building of consensus on the basic parameters of possible international agreements, which will then be negotiated in the WTO. Work in the field of trade and environment was a good example of the complementary nature of the function of the two organizations.

The G.77 Ministerial Declaration points out that "UNCTAD is the sole entity in the United Nations system dealing with trade and development questions in a comprehensive manner. It is therefore an important focal point within the United Nations for the integrated treatment of development and interrelated issues. The Ministers therefore attached particular importance to the strengthening of UNCTAD in order to enable this institution to exercise fully its development mandate... . The Ministers also stressed that UNCTAD had attained greater relevance in the present context after the conclusion of the Uruguay Round and the creation of WTO, which has reinforced the need for a policy-oriented forum or institution with a strong trade and development perspective...".

BOOSTING GLOBAL DEMAND CREATES JOBS

- UNCTAD's Officer-in-Charge addresses ECOSOC -

"UNCTAD has put forward analyses which differ from the conventional wisdom", Carlos Fortin, Officer-in-Charge of UNCTAD, said in addressing issues related to the globalization and liberalization of the world economy.

Jobs will only be created through a coordinated boost in global demand, not through squeezing domestic activity in a quest for increased competitiveness. This is one of Mr. Fortin's messages on 6 July 1995 to the High-level Segment of the United Nations Economic and Social Council (ECOSOC). "Unless the demand side of the world economy receives the attention it deserves, countries will be inclined to deal with unemployment by pursuing beggar-thy-neighbour policies, such as, for instance, competitive devaluations. Or, they will inflict unnecessary pain on themselves and their trading partners by squeezing domestic activity in a quest for increased competitiveness. The world as a whole cannot attain increased competitiveness. Unless there is international cooperation to reduce unemployment, we can confidently expect mounting trade conflicts".

Refuting the prevailing economic reasoning that attributes today's mass unemployment to too many regulations and/or inadequate skills, Mr. Fortin stressed that the problem was rooted in macroeconomic factors, notably: high real interest rates; volatility in interest and exchange rates; and burgeoning fiscal burdens due to the rising cost of servicing public debt. Hence, unemployment could not be removed simply by pushing a cyclical upturn higher and higher. "What is required is an expectation by businesses that demand will grow vigorously enough over a prolonged period to justify heavy investments in plant and equipment. Without the inducement of higher sales, private firms will continue to be cautious, preferring to invest less and to cut costs rather than increase capacity."

The Mexican crisis was predictable

Mr. Fortin offered reflections on two other topical issues. He challenged the view that the Mexican crisis, the cost of which had been high for many, could have been anticipated had there not been "policy slippage". He argued that the main policy error was the acceptance of "the now conventional - but nevertheless mistaken - view that growth naturally follows disinflation, and that current account deficits cannot be a problem when they are generated by private sector borrowing". The crisis *was* predictable on the basis of the scale and character of the capital inflows and of the absence of concomitant vigorous investment. Indeed, for many years UNCTAD's Trade and Development Report had warned against the additional risks and dangers inherent in the volatility of portfolio capital flows to developing countries.

Turbulence on currency markets: no way out without coordination

Mr. Fortin recalled that currency misalignments and volatility, which have intensified in the past six months, are very problematic, especially for international trade, and damage development. He believed that there is no way out without a coordinated adjustment of demand.

"Exchange market adjustments cannot correct disparities in macroeconomic policies except by making it too costly for governments not to change their policies." However, even with the best of policies, markets were likely to become turbulent from time to time, as capital movements turned into bandwagons. This is why UNCTAD had been favouring the proposal to slow down short-term international capital movements by levying a tax on them.

The main cause of currency instability was to be found in disparities in demand creation among the United States, Western Europe and Japan. The cyclical recovery in Western Europe had been driven by external demand; home demand had been sluggish. Japan had been suffering a continuous debt deflation. The United States, on the other hand, had been pursuing - until quite recently - a stimulative monetary policy, thanks to which growth, investment and job creation all became very positive.

Had the United States been suffering from overheating and inflation, the fall in the dollar would have been very damaging to it. But, in practice, by improving US competitiveness it would help to soften the cyclical downturn. On the other hand, it would dampen the upturn in Europe. By the same token, the rise in the value of the yen was putting a further deflationary squeeze on Japan. If Japan were to follow the orthodox policy prescription for "putting one's house in order" - namely medium-term financial policies designed to raise savings and reduce government debt - it would turn its prolonged recession into a deep depression. Japan needed to increase consumption. And some of the advice the United States had been receiving - namely to raise interest rates - would guarantee a "hard" rather than "soft" landing.

Strong growth forecast for developing world

UNCTAD anticipated continued growth, at 4.5 per cent, in developing countries in 1995. However, the disparity among regions would become more

pronounced compared to 1994, with growth expected to fall from 3.7 to 2 per cent in Latin America due to the impact of the Mexican crisis, and accelerate from 5.3 to 6 per cent in Asia due to the continued expansion of intraregional trade and investment. Within the Latin American region, growth in Brazil, Chile and Peru would continue to be robust, less so in Argentina. A further decline in output was expected in Venezuela, and production was likely to contract by approximately 5 per cent in Mexico.

Economic prospects for Africa remain uncertain

In his address, Mr. Fortin placed special emphasis on African economic recovery and development, which was the major theme of the High-level Segment of ECOSOC. Economic prospects for the African region in 1995 were uncertain and the continent ran the serious risk of growing marginalization in the world economy. Social and economic prospects for the region would depend heavily on developments in the external sector and available resource flows, on the one hand, and on climatic conditions and the resolution of political conflicts and civil wars, on the other. While recovery in European industrial countries, Africa's traditional markets and major development partners, could be expected to continue, the situation regarding some key commodity markets were less certain.

Mr. Fortin called for action by the international community in the areas of debt, commodities, investment and trade. On the debt front, he emphasized the need for further improvement in the Naples Terms and their application to the largest possible number of eligible countries. Initiatives were needed also for alleviating Africa's debt to multilateral financial institutions.

Although some diversification had taken place, African income and employment remained heavily dominated by commodity production. For development to take place, the primary sector must be able to generate a sufficient investible surplus to permit growth in other sectors. Making viable choices for diversification required finance for project formulation and pre-investment feasibility studies. The actual investment, improving not only on production facilities but on the grading, quality control, storage, handling, transport and distribution of the commodities concerned, would need to come from private investors, notably foreign.

Regarding foreign direct investment (FDI), Mr. Fortin stated that one needed to stop thinking about Africa as a continent without investment opportunities. A recent UNCTAD study showed that existing FDI in this continent was more profitable than in other regions (see TAD/INF/2559).

As a result of the Uruguay Round Agreements, all African least developed countries (LDCs) would experience export shortfalls due to the erosion of preferences, and all but two would face higher food import bills. The combined negative effect of these two factors on trade balances would be around 10 per cent or more of export earnings for nine African LDCs. Mr. Fortin informed ECOSOC of work currently under way in UNCTAD on how the provisions in the Agreement on differential and more favourable treatment could be put into practice. These issues would be discussed at UNCTAD IX next year.

EDITORIAL ... *(continued from page 2)*

shunts economies into low-growth policies in which low demand growth and low potential output growth feed back on each other. Moreover, the vogue for cutting public investment in infrastructure has had a knock-on effect on reducing private investment.

The Keynesian answer is to raise the tempo of investment and growth. If the capital stock in manufacturing Europe had grown after 1973 by a modest 1 per cent more than it actually did, there would now be an extra 4 million jobs in manufacturing and still more in services.

No danger of inflation

Businessmen need lower capital costs on the one hand, and improved prospects for sales on the other. This would not lead to greater inflation. Times are crucially different from the 1970s. Not only is there much greater slack and flexibility in the labour market but, most important, there is a whole new world of global competition. There is today a much closer link between wages and productivity.

It is not enough simply to expand demand. We must raise productive capacity and this involves, partly, increased public investment in infrastructure - which should not be treated as deficit spending.

To cut the debt

We also, Mr. Abrahamian continues, have to get back to using fiscal policy in demand management, which means, first of all, tackling the overhang of public indebtedness. His brainwave is a one-time levy on holdings of financial assets.

A brave and clear voice is now prematurely stilled. Others must pick up where he left off. The economic road now being travelled produces too much failure and conflict, not to speak of wasted lives, both in the industrialized world and the Third World.

TRADE AND DEVELOPMENT BOARD DISCUSSES UNEMPLOYMENT ISSUES

The September meeting of the UNCTAD Trade and Development Board (first part of the 42nd session) discussed, *inter-alia*, the unevenness of opportunities springing from the liberalization of the world economy, and the varied effects of the macroeconomic reforms undertaken especially by the developing countries. Disparities in economic growth among regions and among countries persisted; many developing countries, especially the least developed and a number of African economies, faced the risk of marginalization. In this context, some delegations argued that a genuinely "globalized economy" would need to feature a more even distribution of investment flows and freer movement of labour. In the context of its analysis of the interdependence between employment, trade, and development, this year's Trade and Development Report (TDR) presented an in-depth discussion of the unemployment issue. The unprecedented levels of unemployment plaguing the developed economies risked sparking a recurrence of protectionism in the North, since public sentiment as well as government analysis tended to blame imports from developing countries and export of capital to developing countries for the decline in workplaces in the developed economies.

Expert group meeting during the Board session

On this and related themes, the Board was treated to a one-day expert group meeting which brought together academics working on issues in international finance, and on the trade and employment nexus. Among others, John Lord Eatwell, who had contributed to the TDR's investigation into North-South trade flows and unemployment, presented his findings on the subject. In assessing the policy responses observed in the major OECD countries, Eatwell classified three main approaches:

- An approach observed in mainland Europe, characterized by high rates of productivity growth, with displaced labour sustained by unemployment benefits ("the benefits strategy");
- An approach observed in Japan, whereby low-productivity sectors, notably agriculture and the services, are shielded from global competition through trade barriers, and thus serve to absorb redundant labour set free in the high-productivity sectors ("the protection strategy");
- An approach observed in the United States and the United Kingdom, where highly flexible labour markets in a situation of high unemployment are forcing both skilled and unskilled labour into low-skill, low-wage jobs ("the impoverishment strategy").

He argued convincingly that all of these approaches were neither economically reasonable nor socially attractive, and that genuine solutions to the unemployment problem called for a multi-faceted, government-supported, demand stimulation package. In the North, this required a resuscitation of government investment into economic and social infrastructure, and employment subsidies (as opposed to unemployment benefits). With regard to the developing world, this would require improving their capacity to absorb exports from the developed economies; such demand stimulation would necessitate, *inter-alia*, debt cancellation and sustained ODA flows from the North, and, more importantly, improved commodity prices.

From the 1995 *Trade and Development Report* *Overview*

In the following, the Bulletin highlights salient sections of the *Trade and Development Report*:

"Unemployment is now a veritable scourge in the developed market economies. Open unemployment has risen sharply in the OECD countries, from an average of 3.2 per cent of the labour force in 1960-1973 to 7.3 per cent in 1980-1994. Last year, 34 million people were out of work.

The problem is not only one of the vast numbers involved. The quality of the new jobs created has on the whole been poor. In the United States, for instance, employment has grown significantly faster than in most other industrial countries, but most of the new jobs created are low-paid. As a result, a large part of the labour force has been suffering from stagnant or even declining rates of pay, and has failed to share in the growth of national income.

In many quarters, the twin problems of unemployment and low pay are being blamed on the growth of international trade and investment, especially manufactured imports from developing countries, with the main culprit being the exploitation of cheap third-world labour. The solutions typically advocated include the imposition of higher labour standards in the developing world or other barriers to imports. Others, less inclined towards protectionism, ascribe unemployment in their own country or region to a loss of competitiveness. Though not targeted at developing countries in particular, this diagnosis, too, is a recipe for trade conflict, for it implies that unemployment at home can only be lowered at the expense of one's trading partners.

Such neomercantilist approaches, which run counter to the letter and spirit of the Uruguay Round, would prevent globalization and liberalization from yielding their benefits. While all countries would be

adversely affected, the threat to the developing countries and countries in transition would be particularly serious since their outward-oriented development strategies will only succeed if markets in developed countries are sufficiently open to accommodate rapidly increasing exports.

The idea that the rise in structural unemployment in the North, especially of unskilled workers, is largely due to North-South trade reflects the coincidence of sharply rising imports of manufactures from developing countries and high and rising rates of unemployment from the early 1970 onwards.

There can be little doubt that unskilled labour in the North has been displaced on a significant scale in a number of industries, including clothing and footwear, in which developing countries have succeeded in increasing their market share. Nonetheless, the growth of North-South trade does not provide a convincing explanation of the unemployment problem as a whole.

- The South's receipts from manufactured exports are largely spent on buying other manufactured goods from the North, thus generating jobs there.

- The North has a considerable surplus in manufacturing trade with the South. This surplus adds to total effective demand and to the number of jobs in the North (without necessarily reducing employment in the South). The 1990s have seen an increase in the North's trade surplus, with the import boom of Latin America, for instance, serving to generate higher demand for its export industries; however, this source of job creation has proved no less fickle than the financing that generated it.

- Even so, differences among developed countries in structural unemployment are unrelated to differences in their trade balances with developing countries; for instance, between 1970 and 1993, Canada, the country that suffered the second largest decline in its trade balance with developing countries, had the largest increase in total manufacturing employment, whereas the country with the smallest, Italy, lost a fifth of its manufacturing jobs.

- If increased imports from the South had indeed been a major cause of unemployment of *unskilled* workers in the North, the corresponding increase in exports to the South should have succeeded in creating excess demand for *skilled* workers. However, demand for skilled workers in the North has also been weak. Numerous instances can be cited of job losses in high-skill industries (e.g chemicals) and of employment gains in low-skill sectors (e.g. rubber and plastics).

- The emergence of new competition in labour-intensive manufactured products is nothing new in economic history. In the 1950s and 1960s, for instance, the industrially most advanced countries became subject to greatly intensified competition from Italy and Japan, without suffering mass unemployment; indeed, several of them experienced such a shortage of unskilled labour that they encouraged large-scale immigration.

- Not all manufactured exports from developing countries are labour-intensive; nor does their competitive advantage always derive from "cheap" or "sweatshop" labour. The developing countries that have been most successful in manufactured exports have experienced rapidly rising wages, and have upgraded the technological and skill content of their production. Some of them have themselves been losing their market share in labour-intensive goods to newcomers among developing countries - but without suffering unemployment as a consequence.

These considerations suggest that, while the greatly increased volume of manufactured imports from developing countries has indeed caused significant job losses in certain industries, the explanation for the sharp rise in mass structural unemployment must be sought elsewhere. The same point applies regarding redundancies resulting from the introduction of new technology - a factor which many analysts view as more important than imports from developing countries. The real question, in both cases, is why it has been so difficult for the labour displaced to be redeployed at remunerative wages elsewhere in the economy.

One explanation is that various man-made rigidities are obstructing the labour markets from bringing the demand for and supply of labour into balance. The rigidities usually cited include laws and regulations that make labour more costly for employers (such as social charges, severance pay, restrictions on job assignments and hours worked) or which prevent wages from falling (such as high unemployment benefits or minimum wages). On this view, the key to resolving the unemployment problem lies in deregulating the labour market and reducing the welfare state. The rationale of this approach is essentially microeconomic. It is undoubtedly true that if an individual enterprise were accorded the opportunity to operate more flexibly in the labour market, it would normally respond by expanding its work-force and output to capture a larger share of the market for its products. But if all enterprises were accorded the same opportunity, none might choose to expand output, unless the level of aggregate demand also rose.

Labour market deregulation is not designed to produce such an increase in aggregate demand. Instead, it may actually reduce aggregate demand by shifting income, from those wage earners who spend a relatively high proportion of their incomes, towards profits. Moreover, firms might respond to increased flexibility by shedding labour, particularly if they were initially facing a squeeze on profits because of inadequate sales. If carried out on a large enough scale, this response, too could in turn reduce the level of demand. Thus, while increased labour market flexibility would certainly make it possible for firms to utilize their capital stock more efficiently, it would not by itself provide an incentive to hire or invest on a larger scale.

The generally restrictive monetary policies implemented in the last two decades have pushed economies into low-growth paths, in which low demand growth and low potential output growth have fed back into one another. Frequent underutilization of the existing productive capacity has made for slow capital formation. The slow growth of potential output has, in turn, provided the justification for persisting in macroeconomic policies that limit demand growth to that of potential output growth. These policies have thus created a weak economic growth dynamic and generated an increasing imbalance between the labour force and the tools - i.e. capital - to employ labour productively.

Restrictive monetary policies and financial deregulation together have pushed up interest rates to historically high levels. In 1981-1993 the average long-term real interest rates in major OECD economies were more than double or triple the 1956-1980 level. Moreover, financial deregulation, together with the increasing tendency to gear monetary policy to monetary aggregates or price movements, has made interest rates and exchange rates more unstable. The increased volatility of key financial variables has, in turn, been reflected in the increased volatility in the components of aggregate demand such as consumption, exports and imports. The uncertainty created by such volatility has served to discourage private investment in fixed assets.

In some industrialized countries, private investment has also been adversely affected by declining public investment, especially in infrastructure. In the United States, Germany and the United Kingdom general government real investment in fixed capital has risen much less than GDP since the 1970s; indeed, in 1990 in the latter two countries it was 15 per cent below the 1972 level.

The preceding points indicate that the solution to the employment problem lies, in the main, in raising the tempo of investment and growth. It has been estimated that if the capital stock in manufacturing in European OECD countries had grown after 1973 by a modest 1 percentage point more than was actually the case, by 1992 there would have been an extra 4 million jobs each in manufacturing and in services.

Before turning to the macroeconomic policies needed for faster growth, it needs to be emphasized that supply-side policies are also necessary in order to ensure that expansion does not run into bottlenecks. In particular, training and skill formation will need close attention. There is also a strong case for shifting policy towards providing employment subsidies, rather than unemployment benefits. They would be a small charge on government budgets, since they would help raise output, and thus tax revenue. Moreover, they would prevent the loss of skills (and morale) that typically results from long-term unemployment, and encourage the provision of on-the-job training for people who would otherwise remain idle.

To step up investment rates, the prime need is to provide business with lower capital costs, on the one hand, and improved prospects for sales, on the other. If Governments and central banks prevent the economy from growing faster than 2.5 per cent (except temporarily during recovery from recession), firms will not be inclined to expand their capacity any faster. Consequently, output growth will be little more than what is possible utilizing productivity growth alone - inevitably leading to mounting unemployment.

The notion that a faster pace of demand expansion would only lead to faster inflation is unjustified under current economic conditions. These are crucially different from the 1970s: there is not only more slack and flexibility in the labour market but also greatly increased global competition. This has greatly reduced the ability of unions and enterprises to translate increased demand for labour and goods into higher wages and prices. Consequently, there is now a much closer link between wages and productivity. In the current recovery, although rates of capacity utilization have risen to historically high levels and commodity prices have recovered somewhat, inflation has continued to decline, falling below 3 per cent during 1994 in most countries; in Japan, inflation has been replaced by "price destruction". Real earnings of labour have been either falling or rising much less than productivity, and declines in unit labour costs are a general phenomenon. Price stability has been particularly remarkable in the United States, where growth has been vigorous. Productivity has been rising at rates not seen since the 1960s, owing to an investment-driven recovery.

It cannot be emphasized enough, however, that it is not possible to eliminate unemployment simply by expanding demand. This can be achieved only over a number of years by raising productive capacity.

Increased public sector investment in infrastructure is also essential for job creation in some countries, for the reasons already given as well as because it is needed to promote technological dynamism and innovation in areas such as telecommunications, computers and information processing. Such investment needs to be accompanied by more business-like budgeting.

With the exception of Japan, fiscal policy has not been used for demand management since the early 1980s. Nevertheless, almost all countries have seen their budget deficits and debt increase rapidly. Almost everywhere interest payments on government debt have become the major source of deficits. To make it possible to use fiscal policy once again for macroeconomic management, it will be necessary to tackle the overhang of public indebtedness. A one-time levy on holdings of financial assets might be the best way to bring down public debt to manageable levels quickly and without subjecting the economy to a painful deflation. In the long run, the capital and current budgets of governments should be balanced so that public investment is self-financing.

Removing the debt overhang would also reduce the constraints placed by bond markets on monetary policy. However, unless monetary policy itself is reoriented towards growth and employment, little progress in accelerating growth will be possible. Monetary policy should aim at establishing low and stable interest rates, and tolerate greater variation in inflation over the cycle. An ability to use fiscal policy more actively would support such a reorientation of monetary policy.

The balance-of-payments consequences of expanding employment in a single country also need attention. In countries that are open to trade, a considerable portion of any demand expansion will leak abroad. Floating exchange rates can reduce the leakage by putting downward pressure on the exchange rate, but this can result in imported inflation. When inflationary pressures are strong, countries will be reluctant to expand in order to avoid devaluation. On the other hand, when, as now, deflation is a greater danger than inflation, they may be tempted to resort to devaluation. A generalized quest for devaluation might eventually produce the desirable result of a world-wide lowering of interest rates. However, the process of competitive devaluation itself might disrupt international trade and payments; and the ensuing risk and uncertainty might be more costly than the benefits of lower interest rates. Consequently, policies to increase employment need to be internationally coordinated, in order to secure low and stable interest rates and avoid exchange rate instability. The latter objective would also call for concerted currency market interventions, as well as controls on short-term capital movements.

In the absence of a strategy of tackling unemployment by "lifting all boats", Governments may find it difficult to resist political pressures in favour of protectionist "solutions", with adverse consequences for all. For instance, the imposition of trade restrictions linked to higher labour standards might seem an easy way to reduce third-world competition. The rationale for improving labour standards in the South, however, should come from protecting workers in that region, not from saving jobs in the North.

In any event, raising Southern labour costs would not go far towards saving Northern labour-intensive industries. Since productivity differentials are much narrower than wage differentials, it would worsen the terms of trade and reduce incomes in the North. Besides, the real wages of unskilled workers would fall as import prices rose. At the same time, higher labour costs would reduce employment, output and exports in the South. Poorer countries that face difficulties in exporting would be hit hardest: the major exporters of manufactures in the developing world have already industrialized, and now enjoy quite high wages and labour standards.

Similarly, trade tensions could also build up within the North. It is perhaps significant that some countries that are habitually reluctant to increase home demand on the grounds that it would be inflationary have also become increasingly willing to take policy action to promote exports - and thus aggregate demand. Moreover, events in recent months have evoked memories of the competitive devaluations of the inter-war period, with accusations that the United States is encouraging dollar depreciation and that Spain, the United Kingdom and Italy have been the unfair beneficiaries of the large exchange rate movements within Europe. The view has also been expressed that the NAFTA partners of the United States should not be permitted to engage in currency depreciations.

It would be unrealistic to expect the international trading system to evolve in the right direction, notwithstanding the Uruguay Round, unless the twin problems of unemployment and low wages in the developed market economies are tackled by increasing the prosperity of all. It is to be hoped that the international cooperation needed to obtain such an outcome will be forthcoming and that international behaviour will not revert to the pattern of competition and conflict characteristic of the 1930s." (excerpts from the *Trade and Development Report, 1995*, pp. iv - ix)

MID-TERM GLOBAL REVIEW OF THE IMPLEMENTATION OF THE PROGRAMME OF ACTION FOR THE LEAST DEVELOPED COUNTRIES

The high-level Intergovernmental Meeting on the Mid-Term Review of the Implementation of the Programme of Action for the Least Developed Countries for the 1990s met in New York from 26 September to 6 October, under the Presidency of H.E. Ms. Kari Nordheim, Minister of Development Cooperation of Norway. The meeting provided an opportunity for stock-taking, reflection and assessment of the implementation of the Programme, but more importantly for identifying concrete action to accelerate the implementation of the Programme adopted in Paris in 1990.

The United Nations currently classifies 48 countries as least developed, 33 of which are in Africa. Their combined population is estimated at 560 million. Their average per capita income in 1993 was only US$ 300, as compared to US$906 in the developing world as a whole, and US$ 21.598 in the industrialized countries.

Mr. Ricupero gave an introductory address in his capacity as Secretary-General of UNCTAD, the UN focal point for monitoring the implementation of the Programme of Action for the LDCs. While the LDCs had, by and large, embarked on a programme of deep and wide-ranging economic and social reforms, most of their development partners had lagged behind in implementing their share of the partnership designed and adopted in the Paris Programme of Action.

The two-week meeting adopted a Declaration stating participants' determination to accelerate economic and social progress in the least developed countries. The Declaration seeks to bolster the Programme of Action through cooperation between the LDCs and donor countries.

RECOMMENDATIONS OF THE MEETING

The meeting confirmed the targets and commitments set out in the Programme of Action and called for these to be implemented rapidly. It also confirmed the need to substantially increase the resources for operational activities provided by the United Nations development system on a predictable, continuous and assured basis. High priority should be given to the LDCs within United Nations operational activities.

The extremely low export capacity of LDCs, their very low level of export receipts, and the fluctuation and the resulting sharp limitation on their capacity to import are the major structural constraints to developing their trade. This situation is more acute in the case of land-locked and island least developed countries as their external trade is further impeded by high transportation costs.

On the basis of an extensive assessment of the trade performance of the LDCs and analysis of the implications for them of the Uruguay Round, the meeting recommended a series of supportive measures to help LDCs diversify their trade and promote their exports. It was agreed that the decisions and measures of the Marrakesh Ministerial Meeting should be made operational and implemented effectively. In this connection, it was agreed that technical assistance to LDCs should be enhanced to enable them to take advantage of the new trading environment created by the Uruguay Round.

Main areas of technical assistance should include:

i) enhancing institutional and human capacities to comply with the new obligations arising from WTO membership or assist LDCs to accede to the WTO as well as to formulate and implement future trade policy;
ii) developing and strengthening supply capabilities of tradeable goods and services and the competitiveness of enterprises;
iii) improving the micro-economic trading environment and expanding the use of new communication technologies in the service of trade through UNCTAD's "trade efficiency" programme;
iv) enhancing the capability to make full use of GSP schemes;
v) supporting commodity diversification and marketing efforts;
vi) expanding the trading and investment opportunities of LDCs, in particular, by identifying new trading opportunities which could be done, *inter alia*, through import promotion agencies by developed and other countries, developing an environment conducive to attract foreign investment, and through advice and technical support.

Many LDCs face serious debt problems and more than one half are considered debt distressed. The serious debt problems of the LDCs necessitate strengthened efforts on the international debt strategy. The Bretton Woods institutions were encouraged to develop a comprehensive approach to assist countries with multilateral debt problems, through the flexible implementation of existing instruments and the creation of new ones. In this respect the Bretton Wood Institutions were encouraged to expedite the ongoing considerations of ways to address the issue of multilateral debt.

Norway announced during the meeting a contribution of an additional $10 million to a new Trust Fund for Good Governance managed by UNDP. It also offered to host a 1996 conference to transform into action the "20/20 proposal" formulated at the World Social Summit in Copenhagen. This proposal recommends allocating at least 20 per cent of foreign aid and 20 per cent of national budgets of developing countries to social priorities.

UNCTAD IX

TO BE HELD AT GALLAGHER ESTATE, JOHANNESBURG

The UNCTAD Trade and Development Board formally endorsed on 18 September 1995 the offer by South Africa to host UNCTAD IX at Gallagher Estate in Midrand, Johannesburg, from 27 April to 11 May 1996. A tele-conference on the event, linking Johannesburg, Addis Ababa, New York and Geneva, took place with the participation of President Mandela of South Africa, Premier Tokyo Sexwale of Gauteng Province (where UNCTAD IX will be held), the President of Addis Ababa University, Duri Mohamed, on behalf of the Prime Minister of Ethiopia, Meles Zenawi, in his capacity as President of the Organization for African Unity (OAU), Trevor Manuel, Minister of Trade and Industry of South Africa, who will be President of UNCTAD IX, Dr. Boutros-Ghali, United Nations Secretary-General, and Mr. Rubens Ricupero, the newly appointed Secretary-General of UNCTAD.

President Mandela emphasized that UNCTAD IX will be dealing with issues which will affect the whole world, but in particular the developing countries of the African continent. He added that participants in the Conference should be committed to working as full and equal partners in the pursuit of sustained economic growth and balanced development in Southern Africa and in Africa as a whole. President Mandela called for more dialogue on world trade, which would help to ensure that the poor countries were not discriminated against.

Dr. Boutros-Ghali expressed his gratitude to President Mandela for hosting UNCTAD IX in South Africa and underlined that the Conference marked a milestone in the continuum of UN Conferences held over the past years; it would deal with the impact of globalization and liberalization on development. UNCTAD IX, as the first international conference to be held in South Africa, had a symbolic value in that it showed the new role of South Africa, which in turn, after having benefited from the sustained support of the international community, was now supporting the United Nations in its efforts to assist developing countries, and among them the countries of Africa.

Mr. Mohamed highlighted the crucial role of the Conference in setting the African economies back on the path of sustainable growth and integrating them into the new international economic landscape.

Mr. Ricupero elaborated that UNCTAD IX would concentrate on two of the central features of the world economy today, namely, globalization and liberalization. UNCTAD would need to examine how to assist developing countries in coping with these phenomena, mitigate the undesirable effects and maximize the gains to be reaped. Emphasis would be placed on trade, production and finance.

Mr. Manuel stressed that South Africa's destiny was inexorably linked with that of the African continent. South Africa had an obligation to inspire meaningful reintegration of the continent into the global economy. Africa could not remain marginalized. This was the challenge faced collectively by the international community.

The theme of the Conference is "Promoting growth and sustainable development in a liberalizing and globalizing world economy". UNCTAD IX will be preceded by three ministerial meetings: the Asian Group will meet in Amman from 6 to 11 January, the Latin American Group in Caracas from 16 to 18 January, and the African Group in Addis Ababa from 22 to 31 January. These regional preparatory meetings will culminate in a Ministerial Meeting of the Group of 77.

The Conference is the organization's highest policy-making body. It normally meets every four years at ministerial level to formulate major policy guidelines and decide on the programme of work.

MEETINGS : 1996

- **Preparatory meetings for UNCTAD IX :**
- **6-11 January :** Asian Group meeting in Amman
- **16-18 January :** Latin American Group meeting in Caracas
- **22-31 January :** African Group meeting in Addis Ababa
- **5 Feb - 1 March :** Preparatory Mechanism for UNCTAD IX : Committee of the Whole (To meet intermittently during this period)

- **15-17 January :** Seminar on Regional Economic Arrangements and their Relationship with the Multilateral Trading System
- **14-16 February :** Intergovernmental Meeting of Trade Point Officials and Experts
- **13-15 March :** Ad Hoc Review Meeting on Bauxite
- **18-22 March :** Intergovernmental Group of Experts on Ports

NOTES ON MEETINGS AND EVENTS

WORKING GROUP ON THE ROLE OF ENTERPRISES IN DEVELOPMENT

UNCTAD's Group on the Role of Enterprises in Development held its second and last session from 3 to 7 July 1995 to discuss ways of improving access to finance for small and medium-sized enterprises (SMEs). The objective is to devise measures aimed at reducing the risks and the costs associated with lending to SMEs, and building up institutions to provide services adapted to their needs. The Group agreed on the need to provide a supportive infrastructure for SME development, and in particular on the need to establish favourable macroeconomic conditions and a sound policy and commercial framework for business development, resource mobilization, financial institutional development and the promotion of long-term lending for enterprise development. The Group suggested policy and support measures to enhance the availability and efficient utilization of essential inputs of SMEs, including finance, market information and training, as well as to strengthen enterprise capabilities and linkages in order to facilitate the development of enterprises and their expansion into export markets; the Group also supported the promotion of various types of financial institutions, including community-based banks, taking into account the importance of personal contact in mobilizing domestic savings. Aspects of technical cooperation in support of policy development, such as institution building and inter-firm cooperation for enhancing the role of SMEs in the development process, were other areas discussed at the session. The results of the work of the Group provide inputs to the preparatory process for the discussion of this issue in the framework of UNCTAD IX.

UNCTAD ADDRESSES WOMEN'S CONFERENCE IN BEIJING

In an address the Fourth World Conference on Women (Beijing, 4-15 September), Ms. Chafika Meslem, Director of UNCTAD's Division for Economic Cooperation among Developing Countries and Special Programmes, stressed that women must take part in the elaboration of all development plans, programmes and strategies at both national and international levels. This implies that they should acquire a decision-making role and political power commensurate to their numbers. Ms. Meslem suggested that UNCTAD be called upon to identify the role of women in commodity production and domestic trade, notably in Africa, and to examine to what extent this traditional role could be maintained and enhanced in the general process of globalization and liberalization. The concept of gender is incorporated in many areas of UNCTAD's ongoing work.

SEMINARS ON PORT MARKETING AND CONTAINER TERMINAL MANAGEMENT

UNCTAD organized two policy seminars in Antwerp (11-29 September) and Ghent (2-20 October) for senior port officials from developing countries. The first seminar dealt with container terminal management, the second with the new commercial role of ports and port-marketing. Both seminars were financed through ongoing technical cooperation projects in human resource development. With the support of the Belgian Government and the Belgian port community, UNCTAD has been involved in this field of development cooperation since 1981.

MEETING OF THE GLOBAL TRADE POINT NETWORK (GTPNet)

On 20 and 21 September, over 80 Trade Point managers and representatives from Africa, Asia, Latin America, North America and Europe participated in the first world-wide meeting of members of the Global Trade Point Network (GTPNet). The meeting was hosted by the Tampere Trade Point (Finland) and was supported by the Government of Finland. The discussion focused on exchanges of experience among Trade Points. The current developmental stage of GTPNet was reviewed in order to identify future orientations for its development, management and coordination. The meeting formulated practical proposals regarding the types of information circulating on the network, its formatting, pricing and dissemination. These proposals will serve as an input to the intergovernmental and analytical work of UNCTAD in the area of trade efficiency. Officially launched in October 1994 at the United Nations International Symposium on Trade Efficiency (Columbus, Ohio, USA), GTPNet has emerged as one of the major players in electronic commerce. Its INTERNET Web site receives over 20,000 visits per day. It offers all Trade Points the possibility to send and receive electronic trading opportunities (ETOs) as well as general information on markets, prices, regulations and procedures. One of the unique characteristics of GTPNet is that it uses the most advanced and recent multimedia technologies, while serving as a global tool for the poorest regions in the world. As defined by its initiators, GTPNet is "an instrument to exclude exclusion from a rapidly globalizing world economy".

COMMITTEE ON DEVELOPING SERVICES SECTORS

The UNCTAD Standing Committee on Developing Services Sectors held its third session in Geneva from 25 to 29 September. The Committee, whose aim is to foster competitive services in developing countries, examined ways of enhancing access to, and use of, information networks and distribution channels. It also assessed the impact of progressive liberalization and of imports of services on the development of competitive services sectors, and examined the difficulties faced by developing countries which prevent them from increasing their participation in world trade in services in the post-Uruguay Round era. The Committee agreed that UNCTAD should adopt a sustained, result-oriented approach aimed at enhancing developing countries' access to, and use of, information networks and distribution channels. The Secretariat was also asked to study the barriers which impede effective temporary movement of service suppliers, as well as the impact of subsidies, government procurement practice, safeguards and anti-competitive practices on the development of competitive services sectors in developing countries. Other recommendations aimed at strengthening UNCTAD's technical assistance to developing countries in the area of services.

AD HOC WORKING GROUP ON TRADING OPPORTUNITIES IN THE NEW INTERNATIONAL TRADING CONTEXT

The first session of the UNCTAD Ad Hoc Working Group on Trading Opportunities in the New International Trading Context was held form 9 to 13 October 1995. The Group considered trading opportunities for developing countries and economies in transition arising from the implementation of the Uruguay Round Agreements, and analyzed the modalities for giving effect to the special provisions for the least developed countries contained in the Final Act of the Uruguay Round. In his opening address, Mr. Ricupero, Secretary-General of UNCTAD, stressed that the overall result of the Uruguay Round was "unequivocally positive," but that there were many pitfalls facing the actual translation of the commitments into concrete trading opportunities. The Group's discussion focused in particular on the areas of agriculture, textiles and clothing. The decision to eliminate the restrictive and discriminatory regime which had distorted world trade in textiles and clothing, a sector of crucial interest to developing countries, is a major achievement of the Uruguay Round. However, the provision allowing for transitional safeguard measures during the phasing-out of import restrictions under the Multifibre Arrangements could lead to the introduction of new restrictions. Such restrictions could be imposed also on products of countries which have never been restricted under the MFA. Unless countries refrain from resorting to these measures, trading opportunities in the short run will be adversely affected. The result achieved in the area of agriculture constitutes a binding standstill and rollback of protection in this sector, and provides a firm basis for future trade liberalization, as foreseen in the Agreement on Agriculture. Developing countries will have to follow closely the implementation of the Agreements in order to maximize opportunities. Developing countries may have difficulties in meeting their obligations within the rather stringent time periods laid out in the Multilateral Trade Agreements and will face problems in effectively defending the rights they have acquired as a result of the same Agreements. They will need support for strengthening their institutions for trade policy formulation, coordination and implementation, for enhancing their negotiating capacities, for adapting their domestic trade legislation to the new international trading system, and for providing them with access to trade information. Such a capacity-building programme is a key for integrating developing countries into the trading system, Mr. Ricupero emphasized.

UNCTAD PARTICIPATES AT THE SECOND AFRO-ARAB TRADE FAIR

Government officials, traders and business representatives from 30 African and 15 Arab countries met in Johannesburg (South Africa) for an Afro-Arab Trade Fair from 9 to 14 October 1995. The event was organized by the Organization for African Unity (OAU), the League of Arab States and the Government of South Africa. UNCTAD participated at the invitation of the OAU. UNCTAD's involvement also responds to a request by Governments, as expressed in several General Assembly resolutions and decisions, calling the United Nations system to strengthen its cooperation with the OAU and the League of Arab States. At the Forum of Cooperation, which was organized during the Fair, UNCTAD officials made presentations on the outcome of the Uruguay Round on African and Arab countries; trading opportunities for African and Arab countries under the Generalized System of Preferences (GSP); the Lomé Convention and bilateral preferential agreements; trade and environment; UNCTAD's technical assistance activities; and presented an overview of the forthcoming UNCTAD IX Conference to be held in South Africa in Spring 1996.

MEMORANDUM OF COOPERATION BETWEEN UNCTAD AND SPAIN

UNCTAD and the Spanish Agency for International Cooperation (AECI) signed, on 16 October, a Memorandum of Understanding setting-up a broad framework for cooperation between the two organizations. Under the initial operational plan, AECI will contribute over US$1.7 million. The funding will support training programmes for Latin American entrepreneurs, a seminar on export processing zones in Latin America, and export promotion activities in the Palestinian territory which are to be implemented by the International Trade Centre UNCTAD/GATT. Projects covered by AECI are geared to job creation and poverty alleviation in Latin America and the Middle East.

NON-ALIGNED SUPPORT UNCTAD

The Heads of State/Government of the Non-Aligned Movement, meeting from 18 to 20 October in Cartagena de Indias (Colombia), reiterated a call made earlier this year for strengthening UNCTAD. They stressed the critical importance of enabling UNCTAD to discharge its mandate fully, making it a "more effective instrument for promoting development". They reaffirmed their support for the mandate of UNCTAD as the focal point within the United Nations for the integrated treatment of development and interrelated issues including trade, commodities and finance.

STRONG OPPOSITION EXPRESSED TO THE IDEA OF WINDING-UP UNCTAD

H.E. Mr. Ali Alatas, Foreign Minister of Indonesia, member of the Commission on Global Governance, said that he was "strongly opposed" to the idea of winding up UNCTAD and had serious doubts about the feasibility of setting up a UN Economic Security Council, as had been suggested in its Report by the Commission on Global Governance. He added that recent changes in the world economy and in international economic relations make it more than ever necessary for UNCTAD to be strengthened in order to cope with the continuing challenges of achieving accelerated, sustainable and equitably spread development, of ensuring an external environment conducive to development, and balanced and just economic relations between the developed and developing countries. He also rejected the argument that UNCTAD was no longer relevant because of the establishment of the WTO. UNCTAD's functions went much beyond trade and embraced such global issues as commodities, money, finance, debt, transport, shipping and transfer of technology. Thus, most of the functions of UNCTAD in the broad field of development were unlikely to be taken over by the WTO programme of work.

IRON ORE MEETING

The UNCTAD Intergovernmental Group of Experts on Iron Ore convened its fourth session, from 23 to 25 October, to review the current market situation. Strong demand for iron ore has begun to lift previously depressed prices in 1995, and the outlook for 1996 looks bright. These developments are a result of the upsurge of steel demand in the OECD countries and of steel output in developing regions. World iron ore production rose by 3.4 per cent in 1994 to 970.7 million tons, while world consumption of iron ore rose by 3.4 per cent in 1994 to 954.6 million tons in 1995, boosted mainly by an upsurge in the steel sectors of Europe and the US. Demand for ores was strong in a number of developing countries, including China, and the economies of Eastern Europe, and there was some stock rebuilding. The UNCTAD market review also discussed issues related to privatization in the iron ore mining industry. Important changes are taking place in this regard in Brazil, China, India and the Russian Federation.

A number of experts addressed the Intergovernmental Group : Mr. A. Trickett, General Manager of the International Iron and Steel Institute (Belgium); Mr. M. Boucraut, former Director of the Raw Material Division of Usinor/Sacilor (France) who assessed the likely scenarios for the iron ore industry up the year 2005; and Mr. J. Roggers, Vice-President of the Société Générale de Surveillance (SGS, Switzerland) who presented the experience of his company in dealing with issues of quality control of iron ore products.

SPECIAL COMMITTEE ON PREFERENCES

UNCTAD's Special Committee on Preferences (twenty-second session) met from 23 to 27 October with the objective of revitalizing the Generalized System of Preferences (GSP). This comprehensive policy review took place in the light of the results of the Uruguay Round Agreements. Imports by OECD countries of manufactures from developing countries under the GSP in 1993 amounted to about US$79 billion, including a US$900 million share of imports from Least Developed Countries (LDCs). These figures, however, represent only half the imports eligible for GSP schemes. In turn, GSP arrangements cover only one quarter of the total MFN dutiable imports by OECD preference-giving countries. Limited product coverage, stringent rules of origin and inflexible administration of documentary and shipment requirements have been major stumbling blocks for the utilization of GSP schemes. The UNCTAD secretariat

therefore presented a number of proposals towards revitalizing the GSP. Main elements of this proposal would envisage an extension of product coverage in line with the integration of agricultural, textiles, clothing and services sectors into the multilateral trading framework; the replacement of ceilings, exclusions etc. by commercially meaningful preferential margins; the elaboration of criteria and procedures for product or country graduation; the strengthening of special treatment for LDCs in respect of product coverage, rules of origin and technical cooperation; and the harmonization of rules of origin. The Committee agreed that the GSP is fulfilling an important role as a multilateral tool for development. Preference-receiving countries called upon preference-giving countries to expand product coverage under the GSP in those sectors that are being fully integrated into the multilateral trading system. They stressed that expansion of GSP coverage in the agricultural, processed food, textiles, clothing, leather and footwear sectors would substantially improve the match between GSP benefits and the export capacities of developing countries, in particular the LDCs. There was a broad consensus that priorities for the further work of UNCTAD in the area of GSP should include the effective utilization of existing preferences, further special measures in favour of LDCs, technical cooperation and improvements of the information base on GSP, and of channels for dissemination to the business community.

CONFERENCE ON PRIVATIZATION IN UZBEKISTAN

Business and investment opportunities in Uzbekistan and the role of the privatization process in generating such opportunities were the subject of a conference held in Geneva on 26-27 October 1995. The conference was organized by UNDP and the Government of Uzbekistan, in association with UNCTAD and UNIDO, and co-sponsored by the International Chamber of Commerce. The Conference covered issues such as Uzbekistan's future privatization and enterprise restructuring plans; investment opportunities in specific sectors, such as minerals and petrochemicals, textiles, food processing and tourism, and case studies of major foreign investments. Profiles of about 40 companies currently under privatization were presented as potential opportunities for foreign investment. Roughly 15 preliminary agreements or written expressions of interest were signed in the course of this conference.

EXPERT MEETING ON STATE PARTICIPATION AND PRIVATIZATION IN THE MINERALS SECTOR

Problems hindering the privatization process in the non-fuel minerals industry have been examined by an expert group convened in Geneva on 26 and 27 October by the Secretary-General of UNCTAD. About 30 experts from Bolivia, Brazil, Chile, India, Kazakstan, Mauritania, Papua New Guinea, Peru, Poland, the Russian Federation, South Africa and Zambia participated in the discussion together with representatives from the academic, banking, legal and mining sectors. The Group looked at the technical issues of privatization in the wider context of sovereignty and the management of natural resources. The discussion demonstrated that there is no one path to privatization, instead different approaches needed to be applied to accommodate different socio-economic situations. The rationale for privatization must be derived from long-term considerations, so as to benefit present and future generations. The Group reported on its deliberations to the UNCTAD Standing Committee on Commodities which met from 30 October to 3 November.

UNCTAD DATABASE ON MEASURES AFFECTING SERVICES TRADE

The UNCTAD secretariat has developed a computerized Database on Measures Affecting Services Trade (MAST). The database, the only one of its kind, provides information on measures, laws and regulations that affect the access to world markets of services and services suppliers from developing countries. MAST was welcomed by Governments, which received sample diskettes, at the third session of the Standing Committee on Developing Services Sectors. MAST allows easy access to information selected according to countries, modes of delivery, service activities and types of trade measures. It has facilities for customized use, enabling users to input information and make selections according to their own criteria. Moreover,the programme can be useful to developing countries by creating profiles of measures that affect their services exports, and as a basis for compiling their own laws and regulations on services in an easily accessible form.

FOR A LIST OF MEETINGS IN 1996, SEE P. 14

RECENT UNCTAD PUBLICATIONS
Annotated List

PARTNERSHIP FOR TECHNOLOGICAL CAPACITY-BUILDING

United Nations publication
Sales No. E.95.II.D.6, US$ 22

Two recent UNCTAD publications describe a variety of new approaches, experiences, and emerging opportunities for technological capacity-building in developing countries, including the LDCs. *Technological Capacity-building and Technology Partnership : Field Findings, Country Experiences and Programmes* is a comprehensive report of an expert group meeting organized by UNCTAD in April 1995. An executive summary is contained in the *Report of the Workshop on Selected Cooperation Aspects for Technological Capacity-Building in Developing Countries*. New forms of cooperation, different from traditional technology transfer to developing countries, are emerging worldwide. They involve the blending of capital, technology, marketing and raw material resources. These new alliances, which emerged in the OECD countries during the 1980s, have begun to gradually move to the South. These partnerships can generate new forms of technology cooperation which involve a two-way relationship, a deliberate endeavour to share technological knowledge, and to collaborate on R & D, training, manufacturing and marketing.

STATE OF SOUTH-SOUTH COOPERATION

United Nations publication
Sales No. E.95.II.D.18, US$15

UNCTAD has published a statistical pocket book and index of cooperation organizations entitled " State of South-South Cooperation". This publication is a contribution to the endeavour of the United Nations system to monitor, publicize and advance the case for South-South cooperation. Part I of the publication contains an index of cooperative organizations in the South by region. Part II contains quantitative data and general economic indicators in particular on South-South trade and monetary and financial cooperation. The publication is one element of a wider programme of the UNCTAD secretariat on economic cooperation among developing countries. In particular, the aim of this statistical pocket book is to supplement the United Nations Secretary-General's Report on the State of South-South Cooperation by providing the necessary quantitative data and indicators, as well as descriptive information on the main South-South institutions.

REVIEW OF MARITIME TRANSPORT - 1994

United Nations Publication
Sales No.E.9.II.D.17, US$30

The 1994 *Review of Maritime Transport* points out that, for the ninth consecutive year, world seaborne trade continued to expand to reach 4.5 billion metric tons in 1994. Preliminary data indicate that the growth rate of this trade will maintain its current momentum, with a projected rate of growth for 1995 of nearly 3 per cent. The *Review* identifies the main developments in world maritime transport and provides an analysis of statistical data, with an emphasis on maritime activities of developing countries. With regard to the regional distribution of seaborne trade, developing countries expanded their share of both oil and dry cargoes for the fourth consecutive year to 51 per cent of cargo loaded, but suffered a slight decrease to 27 per cent of cargo unloaded. Within this group, the share of African economies in world seaborne trade has been deteriorating, a further reflection of the marginalization of the continent. The *Review* also examines the expanding global and intra-regional trades of countries in South America, along with developments in shipping and related services.

MEETING THE DEVELOPMENT CHALLENGE

Technical Cooperation Programmes of UNCTAD
UNCTAD/PSM/TCP/1 - 1995

The brochure entitled *Meeting the development challenge* contains a detailed description of all technical cooperation programmes undertaken by UNCTAD. The secretariat promotes development in two ways. One is by supporting multilateral policy discussions designed to promote international economic cooperation for development. The other is through its technical cooperation programmes, which assist developing countries in overcoming practical obstacles to sustainable development. UNCTAD is a relatively small agency in the area of technical cooperation, but it plays a unique role in filling selected and strategic technical cooperation niches in the development and management of international trade and financial systems. It aims at exploiting comparative advantages, ensuring complementarity with the related work of other international organizations, and maintaining a particular focus on the least developed countries. Funding for UNCTAD's technical cooperation comes from UNDP, individual

donor countries, the European Commission, development financing institutions and foundations. UNCTAD is currently implementing about 300 projects for an annual delivery of some US$ 20 million. The brochure presents UNCTAD's technical cooperation under five broad headings: international trade, sustainable development, financial resources, investment, technology and enterprise development, and transport.

MACROECONOMIC SUSTAINABILITY AND DEVELOPMENT PROSPECTS: LATIN AMERICAN PERFORMANCE IN THE 1990s
Roberto Frenkel
UNCTAD Discussion Paper* No. 100, Aug. 1995

This paper attempts to evaluate the "early 1990s": a well defined period beginning in 1990 and finishing with the Mexican crisis in December 1994. Apart from discussing regional performance, five country cases - Argentina, Brazil, Chile, Colombia and Mexico - are examined in greater detail, with an analysis of the significant differences in results and policies. Most of the early 1990s may be described as the first or boom phase of a cycle in the movement of capital towards the region. Its turning-point took place in 1994, following the rise in short and long-term interest rates in the USA. The Mexican devaluation is both a consequence of the new trend and a signal that reinforces it. Both the fragility *vis-à-vis* the volatility of capital movements and the development prospects of individual Latin American countries are correlated with the policies implemented during the period under consideration. Chile and Colombia, on the one hand, implemented defensive policies and now show less fragility and better long-term prospects. Mexico and Argentina, on the other hand, adopted passive policy rules regarding capital inflows, and show higher macroeconomic fragility and worse development prospect indicators.

WALKING ON TWO LEGS: STRENGTHENING DEMOCRACY AND PRODUCTIVE ENTREPRENEURSHIP IN THE TRANSITION ECONOMIES
Richard Kozul-Wright and Paul Rayment
UNCTAD Discussion Paper* No. 101, Aug. 1995

Recent signs of economic recovery in East and Central Europe have bolstered a narrow transition agenda which limits economic policy to correcting price distortions and establishing competitive markets. This paper challenges that view. The authors argue that because the institutional hiatus in the East involves much more than missing markets, recovery and growth will hinge on measures in support of productive entrepreneurship. Contrary to much writing on this topic, effective measures to build entrepreneurship require clear and decisive State intervention. This starting point raises two further questions. First, can effective policy be designed independently of an effective state bureaucracy in transition economies? Secondly, can economic transition be divorced from the political transition? Answering these questions cannot be postponed to some post-recovery phase and must be addressed simultaneously. Most transition economies are committed to strengthening democracy, but this is a gradual process, and one which is reversible. Accordingly, economic policies must complement, and not rupture, democratic goals. The paper argues that industrial policies and measures to boost domestic investment, rather than reliance on privatization and foreign direct investment, should underpin the wider transition agenda.

FINANCING THE PUBLIC SECTOR IN LATIN AMERICA
J.C. de Souza Braga,
M.A. Macedo Cintra and Sulamis Dain
UNCTAD Discussion Paper* No.102, Aug. 1995

This paper addresses the hypothesis that monetary, fiscal and exchange rate policies have become extremely interconnected in the context of the rate of high public indebtedness that prevails in most Latin American economies. The adoption of the neoliberal paradigm of economic reforms has not been able to solve public financing problems both in terms of controlling inflation and its role in the promotion of economic development. In restructuring the role of the public sector in the economy, it is important not to leave infrastructure financing to the logic of the capital market and business community, both for economic reasons and in view of the regional imbalances which characterize this region. The increasing share of the private sector in infrastructure financing calls for mechanisms that ensure the role of the public sector both as an investor and as a coordinator of financing systems and investment programmes. The new public sector in the region has to be more robust in fiscal, balance of payments, and financial fundamentals. That means in general terms that national Governments will have to adopt substantial changes in income and wealth distribution in order to face the financing needs ahead.

* In the *Discussion Paper* series, UNCTAD publishes independent academic research. The views expressed are those of the authors and do not necessarily reflect the views of UNCTAD.

SHOULD GOVERNMENTS SUBSIDIZE EXPORT THROUGH EXPORT CREDIT INSURANCE AGENCIES?

T. Haniotis and S. Schich
UNCTAD Discussion Paper* No. 103, Sept. 1995

This paper questions the normative basis for the subsidization of export credit insurance. It finds little support for it in the theoretical literature on international trade and insurance. The paper presents estimates of the subsidies provided by 16 export credit insurance agencies in developing countries. The estimates show that some export credit insurance agencies have been able to avoid making systematic losses, while others incurred what appear to be significant intentional losses by offering subsidized premia.

A SIMULATION MODEL OF NORTH-SOUTH TRADE

Robert Rowthorn
UNCTAD Discussion Paper* No.104, Sept.1995

For more than a decade, unemployment in many OECD countries has been at a level not experienced since the 1930s. Unemployment is particularly serious among the "unskilled", who lack the educational qualifications required to compete in modern labour markets. At the same time, there has been a widespread increase in wage dispersion, as the pay of unskilled workers has fallen behind that of skilled ones. Indeed, in the United States, many unskilled workers have experienced an absolute reduction in real wages over the period. High unemployment and lower pay for the unskilled are two sides of the same coin, and both reflect weakening demand for this type of labour. The present paper considers some of the key issues raised by these developments. The first part examines the impact of competition from low-wage countries on advanced economies of the North. It then examines and develops work by Adrian Wood (1994) on this topic. Wood's model and simulations are extended to provide a more comprehensive account of North-South trade and to quantify some of the effects which he had discussed in theoretical terms.

* In the *Discussion Paper* series, UNCTAD publishes independent academic research. The views expressed are those of the authors and do not necessarily reflect the views of UNCTAD.

MARKET DISTORTIONS AND COMPETITION: THE PARTICULAR CASE OF MALAYSIA

Giovanni Nicola De Vito
UNCTAD Discussion Paper* No.105, October 1995

The purpose of this paper is to examine the relationship between concentration and competition. The within-industry data for the Malaysian manufacturing industries offer significant conclusive support for the hypothesis of market distortions, mainly owing to restrictive business practices in the industries with the highest degree of concentration. The evidence suggests some support for the view that both efficiency and market concentration are not at work simultaneously. In the light of these results, the introduction of a competition law could at the very least provide guidelines to ensure that market interactions are carried out. The main elements that emerge and deserve further analysis are the interrelationship between distortions and market structure and their impact on socio-economic variables. Indeed, the results of this paper suggest that public policy be directed towards the dissolution of highly protected and concentrated industries, and support the idea of the introduction of competition legislation to keep the main restrictive business practices under control.

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- Report of the Trade and Development Board on its eleventh (pre-sessional) executive session (TD/B/EX(11)/2
- Report of the Trade and Development Board on the second part of its forty-first session (TD/B/41(2)/15(Vol.II)
- Report of the Trade and Development Board on the first part of its forty-second session (TD/B/42(1)/19(Vol.I)
- Report of the Standing Committee on Developing Services Sectors: Fostering Competitive Services Sectors in Developing Countries - (Shipping) on its third session (TD/B/42(1)5)
- Report of the Ad Hoc Working Group on Trade, Environment and Development on its second session (TD/B/42(1)6)
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- *State of South-South Cooperation*, Statistical Pocket Book *and* Index of Cooperation Organizations; Sales No.E.95.II.D.18, $US15.
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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

The United Nations Conference on Trade and Development (UNCTAD) was set up by the General Assembly in 1964 as one of its permanent organs, mandated to promote international trade, particularly that of developing countries, with a view to accelerating their economic development. UNCTAD has evolved into a universal forum with a development perspective, in which member States review the interdependence of economies and of issues in trade, money and finance. UNCTAD is composed of 188 member States, including the 185 members of the United Nations; many intergovernmental and non-governmental organizations have observer status. The Conference normally meets every four years at ministerial level to establish policy guidelines. Between sessions, work is carried out by the Trade and Development Board and its standing committees, working groups and other subsidiary bodies. As part of the restructuring of the economic and social sectors of the Secretariat of the united Nations, the General Assembly in April 1993 approved the transfer to UNCTAD of a number of activities previously carried out by the former Centre on Transnational Corporations and the former Centre for Science and Technology The problems of the least developed countries and of Africa's economic recovery receive special attention in UNCTAD's work. The UNCTAD staff-part of the United Nations Secretariat-numbers about 450 and is headed by a Secretary-General.

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ISSN 0259-3181